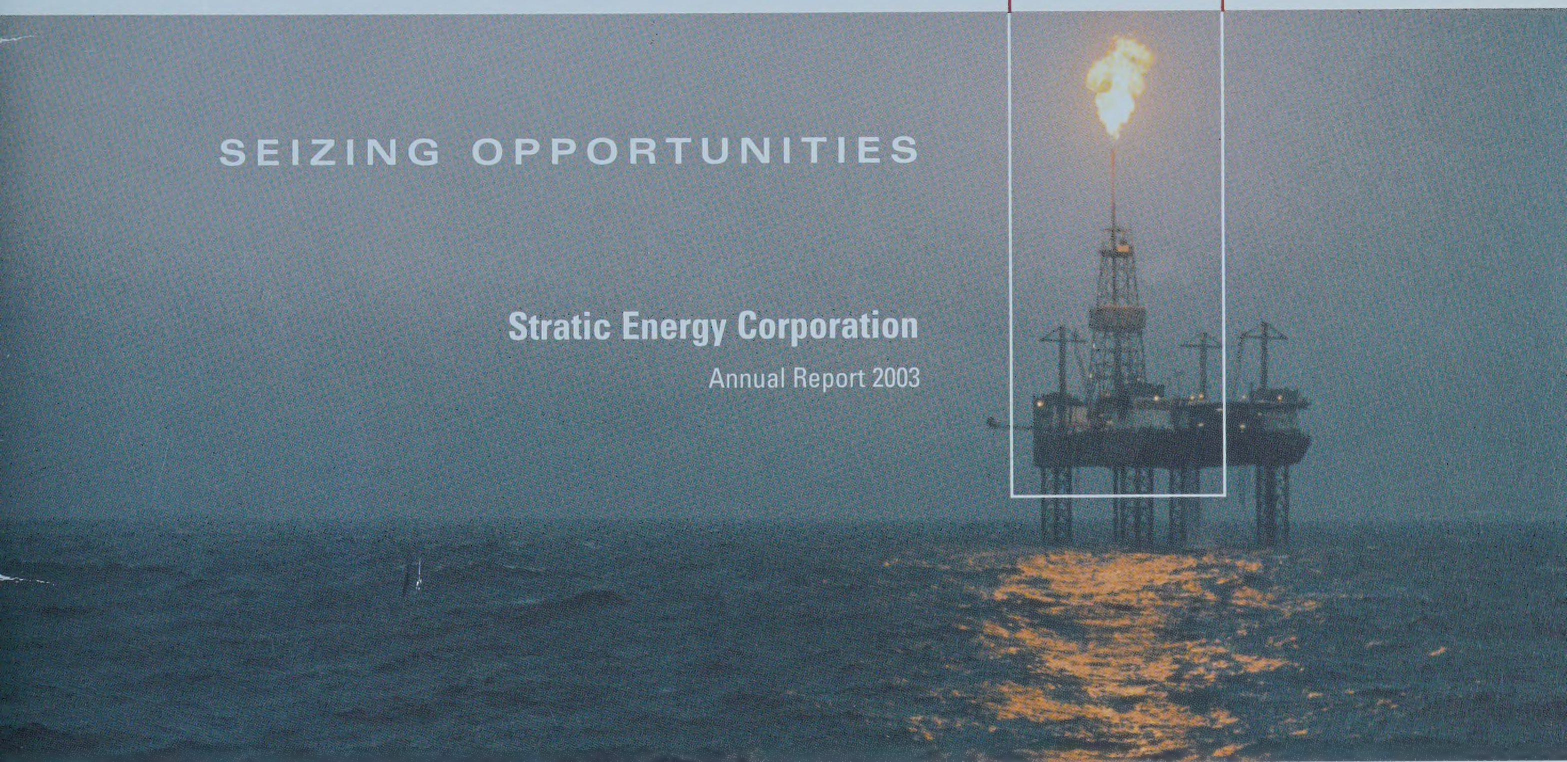


SEIZING OPPORTUNITIES

Stratic Energy Corporation

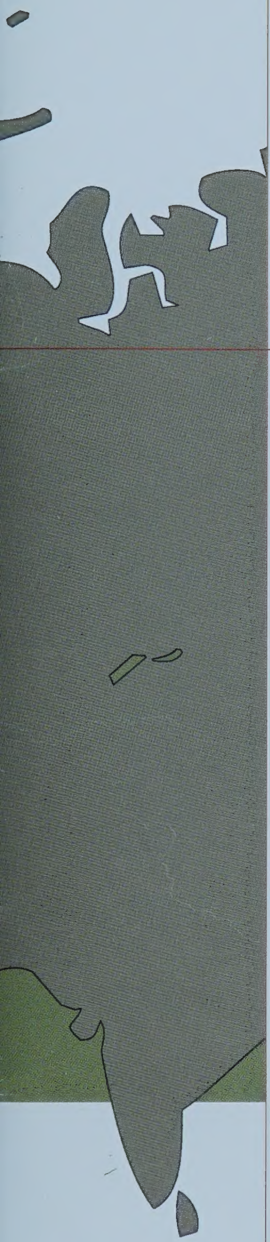
Annual Report 2003

SEIZING OPPORTUNITIES

Contents

MISSION

Stratic Energy Corporation follows a strategy of identifying areas in the international theatre with vast petroleum wealth, but which are either under-developed or in the early stages of exploration or development. Stratic acquires exploration rights and then partners with major oil companies which operate the plays. This aggressive strategy has led to core areas in the UK North Sea, North and West Africa and the Middle East.



UK NORTH SEA—Stratic was awarded 100% interests in three exploration blocks in the UK North Sea in 2003. A 5.58% interest in a fourth block was added in first quarter 2004 which is being evaluated for redevelopment. The block contains a large oil field which produced until the early 1990s, but has never seen modern drilling or seismic techniques.

MOROCCO—Stratic has acquired a 36% working interest in two large concessions located onshore Morocco. Existing seismic shows both concessions contain shallow gas anomalies and highly prospective deeper oil accumulations. Following further seismic evaluation, Stratic plans to drill a multi-well program beginning in the fourth quarter of 2004.

SYRIA—Stratic was invited by Syria's Ministry of Petroleum and Mineral Resources to exclusively negotiate for exploration rights on a highly prospective block located near an important and large gas development project. The agreement is expected to be signed prior to the fourth quarter 2004.

CÔTE D'IVOIRE—Stratic opened up exploration offshore Côte d'Ivoire, which has become one of the West Africa's leading international exploration plays. The Company holds two blocks at 85.5% and 87.5% interests, both located adjacent to major exploration and production activity. Stratic is seeking an industry partner to drill its lead prospect prior to the blocks relinquishing later this year.

NEW VENTURES—Stratic is pursuing new areas of interest in under-explored areas on the African continent along with working to expand its core areas in North and West Africa. Stratic is targeting countries with high-impact potential in under-developed basins both onshore and offshore.

Stratic has offices in London, UK and in Calgary, Alberta, Canada. Stratic trades on Tier 2 of the TSX Venture Exchange under the symbol "SE".

PRESIDENT'S MESSAGE

Hugh G. Ross
President and Chief Executive Officer

In the past year, Stratic established important core areas in the international theatre, all with high-impact potential.

Left to right: Hugh G. Ross, President and CEO with Ketan Panchmatia, Vice President, Finance and CFO

Over the past 15 months, we have been successful in identifying and gaining entry to three new core areas: the UK North Sea, North Africa and the Middle East. Each of these areas fit our investment criteria of having vast petroleum wealth, but which are either under-explored or in the early stages of development. With each of our core areas at different stages in the exploration cycle, we have a balance of near-term and longer-term potential for generating significant streams of production and revenue.

U.K. North Sea

In August 2003, Stratic was awarded 100% interests in three blocks in the UK North Sea in a licensing round held to rejuvenate activity by providing entry opportunities for technically strong, independent companies. All of the exploration blocks acquired by Stratic are adjacent to licences operated by majors — BP, Marathon and Royal Dutch Shell. The licences have a two-year term for completing technical studies and we are currently acquiring publicly available 2D and 3D seismic and well data. We are also in negotiations with a large, financially strong partner to farm-in to two of the Company's blocks.

In March 2004, Stratic was awarded a 5.58% interest in a fourth North Sea block which provides the potential for a near-term revenue stream. The block contains the Crawford Field which was abandoned in 1991 after producing four million barrels of oil from a large structure estimated to contain more than 250 million barrels of initial oil in place. The field was developed without the benefit of modern drilling and seismic techniques and we are evaluating the redevelopment potential through detailed 3D seismic.

Stratic has assembled a portfolio of world-class prospects with tremendous potential for creating wealth.

Morocco

Another core area was opened up in February 2004 when we acquired exploration rights as to a 36% working interest in two large concessions located onshore Morocco. The two contiguous concessions encompass 4,000 sq. km. Existing seismic indicates shallow gas anomalies and highly prospective deeper oil accumulations. One of the blocks contains the Ain Hamra oil field which produced light oil sporadically until the late 1950s but has never seen modern exploration techniques or seismic. Under an initial three-year term, we are working with two experienced industry partners to shoot and evaluate 2D seismic. The first well in a multi-well program is expected to spud in the fourth quarter of this year.

Syria

In 2003, we were invited by Syria's Ministry of Petroleum and Mineral Resources to negotiate for an exclusive exploration permit. We were particularly pleased considering the stature of other companies awarded exploration rights; Royal Dutch/Shell, India's Oil and Natural Gas Corporation and the China National Petroleum Corporation. Stratic's block is located south of the Palmyra gas development, and contains an extension of the same geological formation. Prospects are estimated to be in the range of 100 to 500 bcf. Negotiations have established favourable terms and low bonus payments and we hope to announce a final agreement by the fourth quarter of this year.

Côte d'Ivoire

Stratic was responsible for opening up exploration offshore Côte d'Ivoire, which then evolved into one of West Africa's leading international exploration plays. Stratic holds interests of 85.5% and 87.5% in two exploration blocks. Both blocks are located adjacent to major activity: the Espoir field which commenced production in 2002; a large discovery at Baobab

We have a balance of near-term and longer-term potential for generating significant streams of production and revenue.

drilled in 2001; and, a more recent discovery at Acajou. Stratic has identified a lead prospect, Ako, on 3D seismic which is an anomaly similar to Baobab in a similar geological setting. We are currently in discussions with several companies in order to drill an exploration well to meet our licence commitments.

New Ventures

The African continent holds tremendous under-explored potential and several new areas of interest are being pursued. This is in addition to the identification of further prospects in our core areas in North and West Africa. We anticipate being in a position to announce a further exploration acquisition by the third quarter of this year.

Management's alignment

We have the belief that Stratic's executive and its Board of Directors should hold a large stake in the Company. Members of the executive are Stratic's largest shareholders through investments in Gentry Resources Ltd. Stratic's strategic partner, Petrofac Resources International Ltd., is the Company's second largest shareholder. Petrofac is the investment and asset management division of the Petrofac Group of Companies, a world leader in design and construction of oil and gas surface facilities with approximately 5,000 employees worldwide.

We believe this ownership alignment is a clear indication of management's and the Board's confidence in the Company's strategy and business dealings, and we believe it promotes technical and fiscal discipline. We also consider such equity participation to be important in safeguarding the interests of all shareholders.

Capital structure

On April 21, 2004, we announced a private placement financing in which up to 12,500,000 units will be issued at a price of $0.40 per unit for gross proceeds of up to $5 million. When this proposed

financing is completed, the proceeds will be used to fund acquisitions and exploration and development, as well as for working capital purposes. The financing is expected to close in mid-May.

In a move to strengthen our capital structure, the Company will be seeking a listing on the UK's Alternative Investment Market (AIM) later this year.

Looking ahead

Stratic has assembled a portfolio of world-class prospects with tremendous potential for creating wealth. We also have an experienced management team and Board of Directors with a large personal stake in Stratic's success. In 2004, our priorities are to aggressively move forward with seismic evaluation on our blocks in the North Sea, while in Morocco our technical studies are expected to lead to drilling of a number of wells beginning in late 2004. We are also hoping to complete negotiations to move our other core areas to the evaluation and initial drilling stages.

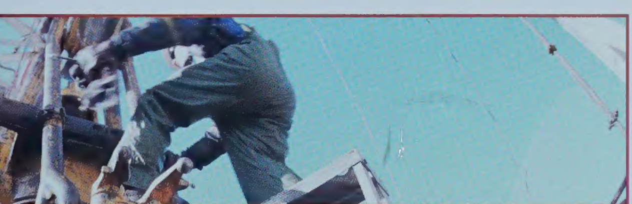
The past year has been a turning point for Stratic as we established core areas with significant potential. I would like to acknowledge a small group of people at our office in Calgary, Alberta, Canada and in our office in London, UK. Their efforts have created momentum to take Stratic into another exciting and rewarding year. We believe that the Company is well on its way to creating significant value for our shareholders.

Respectfully submitted on behalf of the Board

Hugh G. Ross
President + Chief Executive Officer
May 13, 2004

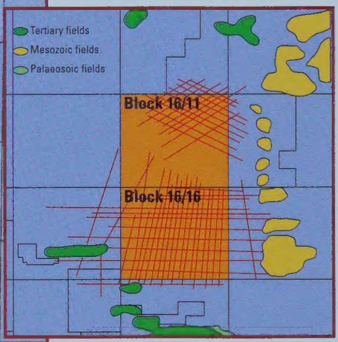
REVIEW OF EXPLORATION

Stratic's exploration portfolio has been built by identifying opportunities in three core areas: UK North Sea, North and West Africa and the Middle East. In each of those areas, Stratic has identified prospects against a well-defined strategy. That strategy includes:

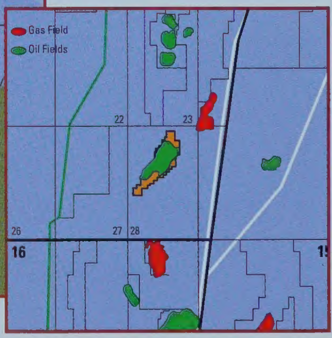


- Early entry into areas with significant exploration upside, or under-developed petroleum assets offering production or development opportunities;
- Rigorous evaluations when ranking opportunities through its technical and commercial models;
- Only considering countries with an acceptable level of political risk;
- If working onshore, good infrastructure must be in place to enable logistical experts to procure necessary transportation services and production equipment;
- Partner with oil and gas companies that are respected for operating international plays and have operating expertise in the specific region;
- Develop close working relationships with local and national governments;
- Creation of a local identity through a combination of property ownership and a willingness to partner with local players.

Block 211/16b Northern North Sea



Blocks 16/11 & 16/16
Central North Sea



Block 9/28a Cragganmore

	Partner Interests – Cragganmore	
(Operator)	Tuscan Energy (Cragganmore) Ltd.	55.33%
	Acorn Acer Limited	33.51%
	Stratic Energy (UK) Limited	5.58%
	Petrofac Resources Limited	5.58%

- Stratic was awarded 100% interests in three offshore blocks in August 2003.
- A fourth block was recently acquired at a 5.58% interest with significant oil redevelopment potential which could lead to a near-term revenue stream.

U.K. NORTH SEA

In August 2003, Stratic was awarded 100% interests in three exploration blocks in the UK North Sea in the United Kingdom Continental Shelf Seaward Licensing Round. The blocks were awarded under a new "Promote" licence offered to re-invigorate the offshore with a new tier of exploration-oriented, technically strong and independent companies. Under the licence, Stratic has a two-year term to conduct technical studies and evaluations which, when completed would lead to application for a "Traditional" Licence. Stratic is currently acquiring and will reprocess 2D and 3D seismic and well data on each of the blocks.

Central North Sea – Blocks 16/11 and 16/16

Blocks 16/11 and 16/16, are located in the Central North Sea and form a contiguous area of 440 sq. km. The blocks are adjacent to the main producing areas of the South Viking Graben in water depths ranging from 110-140 metres. A gas pipeline traverses Block 16/11 and production infrastructure and facilities are within 10 km of the eastern boundary, 20 km from the southern boundary and 12 km from the northern boundary. Production from surrounding blocks comes from a variety of formations within the Devonian, Upper Jurassic, Paleocene and Eocene geologic periods. Stratic is currently in negotiations with a large oil and gas exploration company for the farm out of both blocks.

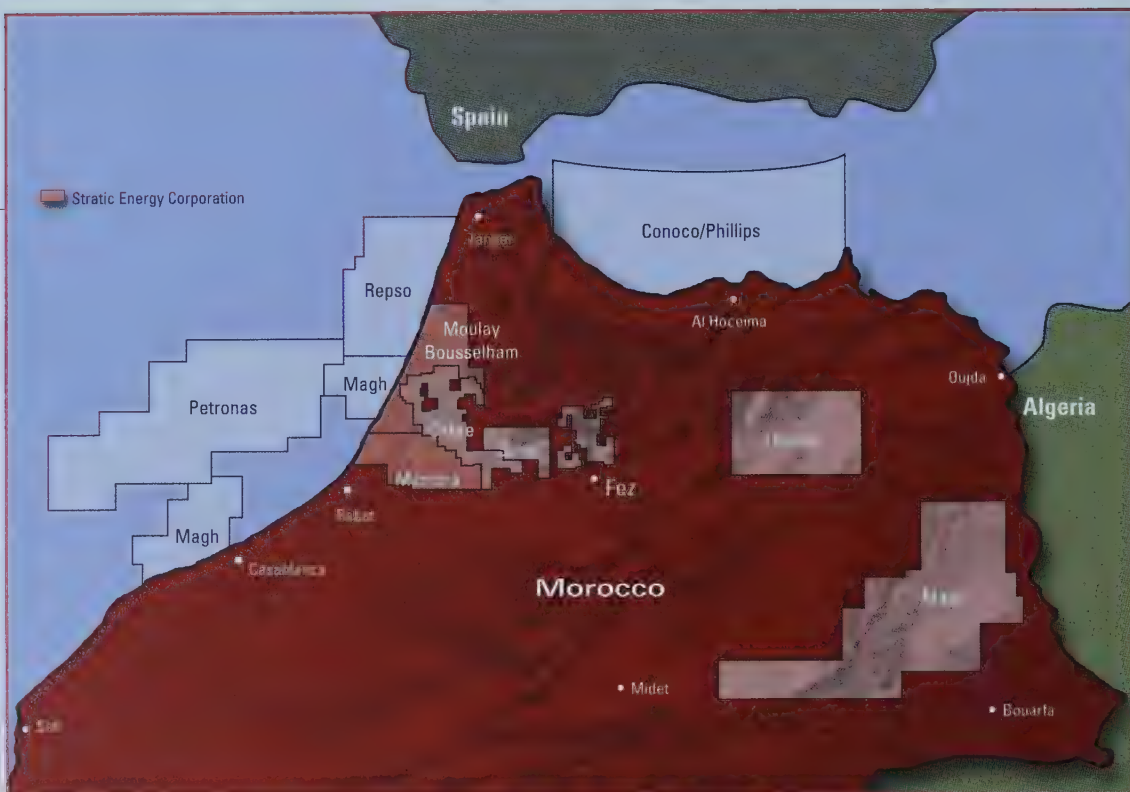
Northern North Sea – Block 211/16b

Block 211/16b is adjacent to some of the main producing areas of the East Shetland Basin. The block, roughly 145 sq. km, is in water depths of approximately 180 metres. Stratic has already identified one lead prospect from the technical evaluation for the bidding round and other possible reservoirs have been identified in the Middle and Late Jurassic and the Lower Cretaceous zones.

Cragganmore — Block 9/28a

In March 2004, Stratic announced that it had acquired a 5.58% interest in Block 9/28a containing the abandoned Crawford Field, now renamed Cragganmore. The block is located in the Central North Sea adjacent to some of the main producing fields within the South-West Viking Graben. Immediately to the south is a Marathon-operated block containing the East Brae and Braemar fields and to the north is the BP-operated Harding field complex.

The Crawford oil field was abandoned in 1991 having produced some four million barrels of oil. The structure is large and is estimated to contain in excess of 250 million barrels of initial oil in place within reservoir sands of variable quality of Jurassic and Triassic age. The field was developed without the use of high resolution 3D seismic and before the advent of horizontal and multi-lateral well technology, both of which will be used by Stratic and its partners in an integrated study to investigate the redevelopment potential of the Cragganmore field. The remaining exploration potential of the block will also be reviewed with the benefit of 3D seismic.



MOROCCO

Proven hydrocarbon fairway

In February 2004, Stratic acquired a 36% working interest in two large, onshore concessions located on the north-western coast. Known as the Moulay Bousselham and Mamora Permits, the two contiguous concessions encompass 4,000 sq. km and contain a proven hydrocarbon fairway. The initial term on the concessions is three years, with options for extensions.

	Partner Interests	
(Operator)	Heyco Maroc	39%
	Stratic Energy (Morocco) Inc.	36%
	Enercorp Maroc	25%

- Excellent commercial terms make Morocco an attractive country for exploration and development.
- Potential exists for early cash flow from field redevelopment and low risk gas exploitation.
- The first well in a multi-well program is expected to commence drilling in the fourth quarter.

Exploration drilling on the Moulay Bousselham concession in the 1920s confirmed the presence of the Ain Hamra oilfield at shallow depths. The field produced light oil sporadically until it was abandoned in the late 1950s and only minimal exploration has taken place since.

Existing seismic suggests the presence of both shallow Tertiary oil and gas and deeper Mesozoic oil targets. A number of shallow gas anomalies have been identified, but the potentially large accumulations of Mesozoic oil are of greater interest. Infrastructure includes a railway, gas pipelines and a refinery, all located on or immediately adjacent to the Company's blocks.

Work program

Activity in the initial three-year term will include acquisition of a regional airborne gravity and magnetic survey, reprocessing of 2D seismic and the acquisition of at least 250 km of new 2D seismic. The work commitment is for the drilling of four exploration wells to test the shallow Tertiary objectives, or one deep exploration well to test the deeper potential. Stratic and its partners expect to test both objectives. The first well is anticipated to commence drilling in the fourth quarter of 2004.

SYRIA

In 2003, Syria's Ministry of Petroleum and Mineral Resources invited Stratic to negotiate for an exploration permit on Block 17 and negotiations commenced in June. The work program and commercial terms were recently agreed to and final signing of the Production Sharing Agreement is expected prior to the fourth quarter of 2004.

	Partner Interests	
(Operator)	Stratic Energy Corporation	100%

- Final signing of a Production Sharing Contract is expected before Q4 2004 to explore on Block 17.
- The block is located adjacent to the blocks containing the strategically important Palmyra Area gas development, now awaiting development.
- Individual prospects are in the range of 100 to 500 bcf with total potential estimated to be in excess of 1.2 Tcf.

Block 17 has seen little exploration and holds potential for gas in the northern portion of the block and oil in the southern portion. The block is located immediately south of the large Palmyra gas development, a new development bringing on-stream a cluster of previously discovered large gas fields containing in excess of four Tcf in place. The gas-prone northern part of the block is of prime interest as it contains anticlines which are an extension of the Palmyra fold belt. Individual prospects in the area are in the range of 100 to 500 bcf with a number of undrilled anticlines identified from surface mapping of the area.

Stratic has negotiated an initial three and a half year term with the option of two extensions, a four-year period followed by a further three-year extension. Under the initial term, and with little seismic available over the area, Stratic plans to shoot 625 km of new 2D seismic over the northern portion of the block. Once processing and interpretation have identified drilling targets, Stratic plans to seek an industry partner for drilling and additional seismic acquisition.

CÔTE D'IVOIRE

Offshore Operator

Stratic operates two blocks offshore Côte d'Ivoire which has evolved into one of West Africa's more exciting areas of exploration and development.

	Partner Interests	
(Operator) CI-103	Stratic Energy (West Africa) Inc.	87.5%
	TC Petroleum	2.5%
	PETROCI, national oil company	10.0%
CI-102	Stratic Energy (West Africa) Inc.	85.5%
	TC Petroleum	2.5%
	PETROCI, national oil company	12.0%

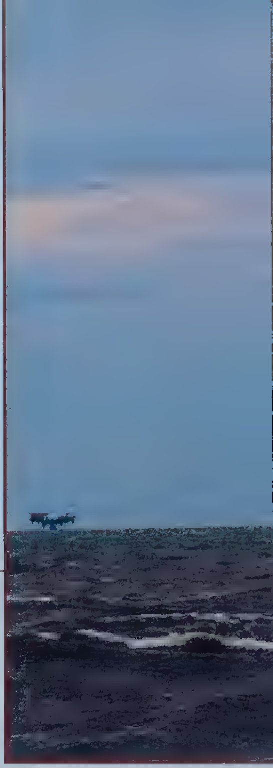
- Stratic entered the offshore basin in 1997, introduced the play to the international community and majors have drilled large discoveries in the region.
- Stratic is currently seeking a funding partner to explore the blocks.

Stratic has an 85.5% interest in CI-102, an 861-sq. km block located in shallow water with depths reaching 220 metres. CI-103, at an 87.5% interest, is a deeper block with depths ranging from 220 metres to the ultra-deep.

Stratic's lead prospect

On CI-103, Stratic has identified a lead prospect, Ako, which is a deep-water structure similar to the proved Baobab discovery. Ako was identified through 2D and 3D seismic shot over the blocks, regional log evaluations and well cuttings, and in-depth geological mapping. The initial estimate of recoverable resources is approximately 160 million barrels of oil.

Stratic is seeking to farm out the two blocks. Stratic has completed all of its work obligations under its second term and in early 2004 received an extension to allow for farm-out negotiations to continue.



BOARD OF DIRECTORS AND MANAGEMENT

HUGH G. ROSS, B.A.

President, Chief Executive Officer and Director

From 1980 to 1990, Mr.Ross held various management positions from Land Manager to Secretary-Treasurer and Vice-President of Gentry Resources Ltd, an oil and gas company active in exploration throughout Canada. Mr. Ross ultimately became its President and Chief Executive Officer in 1990. Gentry is a successful, independent crude oil and natural gas exploration and production company active in the acquisition and development of petroleum resources. Upon restructuring Stratic in April 1999, Mr. Ross became its President and Chief Executive Officer.

TOM MACKAY, B.Sc.

General Manager

Mr. Mackay has been a well-respected petroleum consultant with several major companies since 1998, most recently with Kerr-McGee. Prior to that, Mr. Mackay was with Clyde Petroleum and it's successor, Gulf Canada, in various management roles. He has well over 20 years of international experience alone, starting with Shell U.K., and almost 25 years of petroleum engineering and geology experience. Mr. Mackay joined Stratic in the fall of 2002.

KETAN PANCHMATIA, B.MGT., C.M.A.

Vice-President, Finance and Chief Financial Officer

After obtaining his Bachelor of Management degree from the University of Lethbridge in 1988, Mr. Panchmatia joined the national accounting firm of Deloitte & Touche, Chartered Accountants. Mr. Panchmatia started with Gentry Resources Ltd. in 1990 as Controller and subsequently assumed the role of Secretary/Treasurer of Gentry. He earned his C.M.A. designation in 1992 and became Chief Financial Officer in 1995. Upon Gentry acquiring its ownership stake in Stratic in April, 1999, Mr. Panchmatia became Chief Financial Officer of the Company.

R. GORDON MCKAY, B.E.S.

Vice President, Exploration

Mr.McKay holds a degree from the University of Waterloo, as well as memberships in the Society of Exploration Geophysicists and the Canadian Society of Petroleum Geologists. Prior to joining Gentry in 1993, Mr. McKay served as a geophysicist with a seismic processing firm, then as a senior geophysicist with Petro-Canada Inc., a large multi-national oil and gas company. Mr McKay has extensive experience in geophysics both in Canada and internationally. Upon Gentry acquiring its ownership stake in Stratic, Mr. McKay became Vice President, Exploration of the Company

COLIN ORR-EWING

Senior Researcher, Blakeney Capital Management and Director

Mr. Orr-Ewing has been at Blakeney Capital Management, a London-based emerging market specialist, since 1994. He began his career as an investment manager for the Shell Pension Fund in London after completing his education as a Chartered Accountant. Mr. Orr- Ewing also has extensive experience in international financial affairs. He was deeply involved in the oil industry from 1971 through to 1987 with numerous companies in the North Sea, Libya, Nigeria, and Algeria. Mr. Orr-Ewing has also served as a Director for a number of oil and gas exploration and development companies. He is a graduate of Oxford University in geography and geology.

AMJAD BSEISU

President and CEO of Petrofac Resources International Ltd. and Director

Mr. Bseisu graduated from Duke University (BS,1981), Stanford University (MS and PhD Engineering, 1984) and Southern Methodist University (MBA, 1989). After graduation, Mr. Bseisu embarked on a career at ARCO International Oil & Gas where he served as a member of a seven-person executive management team, responsible for all commercial and trading activities and presiding over a business unit with $3 billion in revenue and 300 mboepd in boe production. In 1998 Mr. Bseisu set up Petrofac Resources International Ltd., the resource and operations subsidiary of Petrofac Limited, which has developed and operated assets in Algeria, Bolivia, Kyrgyzstan, Syria and the UAE, working in partnership with major companies. He has excellent relationships with the international energy community.

A. BRUCE MACDONALD

President, Stoneyfell Investments Inc. and Director

Mr. Macdonald has over 40 years experience in the oil and gas industry in Canada and internationally. Previously, he held the position of Executive Vice-President with Andex Oil Co. Ltd. and its successor, EOG Resources. He also served as Vice-President of Operations for the Delhi International Oil Corporation based in Australia. That company was responsible for the discovery of the prolific Cooper Basin in central south Australia and for the initial development of gas processing facilities and pipelines serving markets in Sydney and Adelaide. Mr. Macdonald holds a Bachelor of Science degree in Petroleum Engineering from the Colorado School of Mines.

JOHN WEATHERALL

Chairman, Scarthingmoor Asset Management and Director

Mr. Weatherall was formerly the Chairman of Toronto Dominion Asset Management and subsequent thereto, he has acted as a consultant to the Toronto Dominion Asset Management and is Chairman of Scarthingmoor Asset Management Inc., an investment counselling firm in Toronto. Earlier in his career, he was a Director and member of the executive committee of Wood Gundy Inc. Mr. Weatherall provides important financial and strategic advice and insight to the Board.

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the Consolidated Financial Statements of the Company. All figures herein have prepared in accordance with Canadian generally accepted accounting principles and are reported in US Dollars unless otherwise stated.

Certain disclosure in this MD&A contains forward-looking statements that involve risks and uncertainties. Such information, although considered reasonable by Stratic at the time of preparation, may prove to be incorrect and actual results may differ materially from those anticipated in the statements made. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Such risks and uncertainties include, but are not limited to, risks associated with operations, loss of market, regulatory matters, commodity price risk, environmental risks, industry competition, and ability to access sufficient capital from internal and external sources.

Additional information relating to the Company can be found at www.sedar.com.

The date of this MD&A is May 10, 2004.

Selected Financial Information

The following table summarizes selected annual financial information for the years ended and as at December 31, 2003, 2002 and 2001.

Selected Annual Information

	2003	2002	2001
Production revenue	**$ –**	$ –	$ –
General and administrative expenses	**633,622**	260,263	148,941
Funds from (used in) operations	**(205,212)**	(300,285)	(144,730)
per share – basic	–	(0.01)	(0.01)
per share – diluted	–	(0.01)	(0.01)
Net income (loss)	**(459,167)**	(1,054,058)	(1,507,584)
per share – basic	**(0.01)**	(0.04)	(0.09)
per share – diluted	**(0.01)**	(0.04)	(0.09)
Working capital	**1,914,276**	2,053,062	81,859
Total assets	**4,770,642**	5,103,472	2,652,771
Shareholders' equity	**4,620,405**	4,664,942	2,052,694

The following table summarizes selected quarterly financial information for 2003 and 2002.

Summary of Quarterly Results

Quarter ended	March 31	June 30	September 30	December 31
2003				
Production revenue	**$ –**	**$ –**	**$ –**	**$ –**
General and administrative expenses	**72,746**	**240,164**	**99,940**	**220,772**
Funds from (used in) operations	**96,190**	**(44,186)**	**(83,226)**	**(173,990)**
per share – basic	–	–	–	–
per share – diluted	–	–	–	–
Net income (loss)	**91,192**	**(44,785)**	**(120,006)**	**(385,568)**
per share – basic	–	–	–	**(0.01)**
per share – diluted	–	–	–	**(0.01)**
2002				
Production revenue	$ –	$ –	$ –	$ –
General and administrative expenses	45,635	58,642	20,629	135,357
Funds from (used in) operations	(47,473)	(62,429)	(17,216)	(173,167)
per share – basic	–	–	–	(0.01)
per share – diluted	–	–	–	(0.01)
Net income (loss)	(82,326)	(74,680)	(17,216)	(879,836)
per share – basic	–	–	–	(0.03)
per share – diluted	–	–	–	(0.03)

Results of Operations

Stratic's net loss for 2003 was $459,167 ($0.01 per share) compared to a loss of $1,054,058 ($0.04 per share) in 2002. The loss in 2003 included a $24,203 write-down of assets in Guinea whereas the loss in 2002 included a write-down of $753,773 as the Company withdrew from the Ofoubou Ankani Block in Gabon.

General and administrative costs increased to $633,622 in 2003 from $260,263 the previous year. The largest component of the increase was the pursuit of a listing on London's AIM stock exchange, which cost $165,442. The Company intends to complete this listing in 2004. The next largest contributors to the rise in expenses were increases of $77,513 and $54,665 in compensation and rent respectively as Stratic opened up its London office in the first quarter of 2003. A comparative summary of the Company's general and administrative costs over the past two fiscal years is as follows:

General and administrative expenses

	2003	2002
AIM stock exchange listing	**$ 165,442**	$ –
Wages, benefits and directors' fees	**142,199**	64,686
Rent	**64,217**	9,552
Management fees	**64,217**	38,208
Communications	**57,836**	34,419
Travel and promotion	**50,821**	30,255
Consulting	**46,232**	42,520
Professional fees	**16,189**	29,967
Office and other costs	**14,778**	2,823
Filing, listing and registrar fees	**11,691**	7,833
	$ 633,622	$ 260,263

Stratic recorded a foreign exchange gain of $377,194 in 2003 versus a loss of $40,074 in 2002. As a result of Stratic's CAD $4,657,070 financing in December 2002, much of Stratic's funds are denominated in Canadian dollars. The strengthening of the Canadian dollar against the US dollar led to this gain.

Included in expenses this year is $256,037 of stock-based compensation costs, as the Company prospectively adopted new standards with respect to accounting for stock option grants. This figure represents the value, using the Black-Scholes option-pricing method, of all stock options granted and vested in 2003.

During 2003, Stratic incurred $288,751 worth of expenditures on its properties. This compares to $394,818 in the comparative period. The area of focus in 2003 was the pursuit of interests in offshore United Kingdom which led to the acquisition of three blocks in the North Sea. Stratic was able to recover $175,453 of capital expenditures in Côte d'Ivoire, as funds previously charged to the joint projects were recouped by the former operator. A breakdown of Stratic's capitalized Petroleum and Natural Gas Properties as at December 31 2003 is as follows:

Petroleum and Natural Gas Properties

	Algeria	Côte d'Ivoire	Gabon	Guinea	Kenya	Morocco	Syria	United Kingdom	Total
Balance, December 31, 2001	$ 53,327	$ 1,219,232	$ 578,276	$ –	$ –	$ –	$ –	$ –	$ 1,850,835
Additions during the year:									
Acquisition and bonus payments	400,000	–	–	–	–	–	600,000	–	1,000,000
Drilling	–	–	18,869	–	–	–	–	–	18,869
Seismic activities	–	10,454	–	–	–	–	–	–	10,454
Geological and geophysical	–	751	112,165	–	–	–	–	–	112,916
Training	–	42,853	17,751	–	–	–	–	–	60,604
Technical and administrative	32,157	44,607	25,345	18,978	–	–	26,935	–	148,022
Consultancy and other	5,985	21,973	1,367	–	–	–	14,628	–	43,953
	438,142	120,638	175,497	18,978	–	–	641,563	–	1,394,818
Less:									
Recoveries	–	–	–	–	–	–	–	–	–
Write-downs	–	–	(753,773)	–	–	–	–	–	(753,773)
	–	–	(753,773)	–	–	–	–	–	(753,773)
Balance, December 31, 2002	491,469	1,339,870	–	18,978	–	–	641,563	–	2,491,880
Additions during the year:									
Acquisition and bonus payments	–	–	–	–	–	20,555	–	18,774	39,329
Geological and geophysical	12,000	3,438	–	–	20,788	–	2,964	107,270	146,460
Technical and administrative	2,256	9,364	–	5,225	4,760	1,349	16,156	–	39,110
Consultancy and other	1,234	57,682	–	–	1,234	1,234	1,234	1,234	63,852
	15,490	70,484	–	5,225	26,782	23,138	20,354	127,278	288,751
Less:									
Recoveries	–	(175,453)	–	–	–	–	–	–	(175,453)
Write-downs	–	–	–	(24,203)	–	–	–	–	(24,203)
	–	(175,453)	–	(24,203)	–	–	–	–	(199,656)
Balance, December 31, 2003	**$ 506,959**	**$ 1,234,901**	**$ –**	**$ –**	**$ 26,782**	**$ 23,138**	**$ 661,917**	**$ 127,278**	**$ 2,580,975**

Brief summaries of Stratic's go forward plans with its current properties are as follows:

Côte d'Ivoire

Stratic operates two offshore blocks with an 85.5% interest the shallow CI-102 block and an 87.5% interest in the deeper CI-103 block. The Company has fulfilled its commitments with respect to first and second exploration periods and is seeking a partner to help with funding prior to entering into the third exploration period. If Sratic is unable to find such a partner, it will not proceed to the third exploration period, currently scheduled to begin in August 2004, and will relinquish its interests in the blocks.

Syria

Stratic has recently negotiated the work program and commercial terms for a Production Sharing Agreement (PSA) on block XVII. The initial term is three and half years with the option of a four year extension and the further option of a three year extension. Initially, the Company plans to acquire 625 line kilometres of new 2D seismic data. Once processing and interpretation have identified drilling targets, Stratic intends to seek a partner for drilling and additional exploration. Significant first period commitments include the acquisition of the aforementioned seismic data and the drilling of one exploration well. The financial cost of the initial period is estimated at $5.2 million and the terms are subject to the formal signing of the PSA, expected by the end of the third quarter this year. Once block XVII is formally acquired, Stratic will issue 6,181,818 common shares as per its agreement with its joint venture partner, Petrofac Resources International Ltd (Petrofac).

Algeria

Stratic is continuing its discussions with the Algerian government for the rights to an onshore exploration block. It is the Company's intention to proceed, via its joint venture partner Petrofac, with a formal bid for block 438b when invited to do so, such invitation expected in the third quarter of this year. The work program and commercial terms will be contained in the bid. Should Stratic be successful in acquiring the block, it will issue 8,545,455 common shares to Petrofac.

United Kingdom

In 2003, the Company acquired three blocks in the UK North Sea. During the initial two year term, which officially began October 1 2003, Stratic will acquire 220 kilometres of 2D seismic data, 225 square kilometres of 3D seismic data, and reprocess 40 kilometres of 2D seismic data. The Company is currently in negotiations with a large company to farm out an interest in two of the three blocks.

Stratic has recently acquired a 5.58% interest in Block 9/28a, containing the Cragganmore field (formerly the abandoned Crawford Field). Short-term plans with respect to this block are being finalized and will include an integrated study to investigate the redevelopment potential of the Cragganmore field.

Kenya

Stratic will continue to review and pursue opportunities in Kenya. Costs incurred to date include the review of various geological and geophysical data as well as meetings with government and industry officials.

Morocco

On February 25 2004, Stratic acquired a 36% working interest in the Moulay Bousselham and Mamora Permits, onshore Morocco. During the initial three year exploration period, significant commitments include conducting an airbourne gravity and magnetic survey; acquiring and processing 2D seismic data; and the drilling of four shallow exploration wells or one deep exploration well. The Company has posted a letter of credit in the amount of $900,000 to fund its portion of the estimated initial exploration period costs.

Liquidity and Capital Resources

In December 2002 Stratic completed a financing of CAD $4,657,070 via the issuance of 21,168,500 Special Warrants at CAD $0.22 per Special Warrant. On May 2, 2003 Stratic received a receipt for its prospectus and the Special Warrants were exercised into 21,168,500 common shares and 10,584,250 share purchase warrants, with each share purchase warrant exercisable into one common share of Stratic at a price of CAD $0.40 per share until June 4, 2004.

In conjunction with this financing, 2,116,850 compensation options were issued. Each option entitles the holder to acquire, for CAD $0.22 per compensation option, one common share and one-half of a compensation warrant, with each whole compensation warrant exercisable into one common share of Stratic at a price of CAD $0.40 per share until June 4, 2004. To December 31, 2003, 1,012,817 compensation options were exercised.

As a result of the above issuances, Stratic finished the year with 53,021,661 common shares issued and outstanding. Since year-end, a further 195,000 and 837,500 shares have been issued pursuant to the exercise of share purchase warrants and incentive stock options respectively, resulting in 54,054,161 common shares currently issued. Securities currently outstanding that can be converted into common shares include 10,895,658 share purchase warrants; 1,104,033 compensation options; 552,017 compensation warrants; and 3,645,000 incentive stock options.

As at December 31, 2003, Stratic had cash and cash equivalents on hand of $2,042,415. The 2002 year-end figure was $887,112, which did not include $1,474,130 of restricted cash and cash equivalents. This restricted amount, which was 50% of the gross proceeds from the 2002 Special Warrant financing, was released to the Company when it received the receipt for its prospectus in May.

Subsequent to year-end, Stratic acquired interests in two concessions in Morocco and assumed various exploratory work commitments in connection therewith. Stratic has posted a $900,000 letter of credit to fund its estimated share of expenditures over the next three years.

Also subsequent to year-end, the Company announced its intentions to sell up to 12,500,000 units at a price of CAD $0.40 per unit. Each unit shall consist of one common share and one-half of a share purchase warrant, with each full share purchase warrant entitling the holder to acquire one common share at a price of CAD $0.50 per share for a period of 24 months from the date of issue. The agents hold an option to increase the size of the offering to 15,000,000 units. Proceeds from the financing will be used to fund future capital expenditures and for working capital. The Company may require additional capital to fund potential obligations in Syria and other countries as work progresses.

New Accounting Standards for 2003 and 2004

During the past year, a number of changes to financial reporting requirements have been introduced. The following outlines the most notable changes and those which have, or may have, the greatest impact on Stratic.

Full Cost Accounting

Effective for fiscal years beginning on or after January 1, 2004, the Canadian Institute of Chartered Accountants (CICA) issued Accounting Guideline 16 – "Oil and Gas Accounting – Full Cost" which changes the calculation of the ceiling test. The new standard requires that an impairment be recognized if the carrying value of a long-life asset can not be recovered from its undiscounted future cash flows. An impairment, if required, is then determined as the difference between the carrying value and the fair value of the asset, such fair value to be based on the present value of the expected future discounted cash flows. Although Stratic had no reserves at December 31, 2003, the new guideline may affect the carrying value of the Company's properties once reserves are established.

Asset Retirement Obligations

The CICA has introduced handbook section 3110 – "Asset Retirement Obligations" which is effective January 1, 2004, although early adoption is encouraged. Under this section, the Company is required to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is first recorded, it is added at fair value to property and equipment. It is then amortized against income as a component of depletion and depreciation expense using the unit-of-production method. While the Company elected to adopt this policy effective January 1, 2003, Stratic will not record a liability until such time as it drills or acquires a well that necessitates an abandonment obligation.

Stock-based Compensation

On October 1, 2003, and with effect from January 1, 2003, the Company prospectively adopted the CICA's new standard with respect to accounting for stock-based compensation arrangements relating to stock options granted to employees, officers and directors. Under the transitional provisions of the standard, stock options granted to employees, officers and directors after the effective date of January 1, 2003 are accounted for using the fair value method. As a result of this change, Stratic recognized a stock-based compensation expense of $256,037 in 2003. A summary of the assumptions used in calculating this expense is contained in Note 8(g) of the Consolidated Financial Statements.

Business Risks and Uncertainties

Stratic, like all companies in the international oil and gas arena, operates in environments subject to inherent risks. Many such uncertainties are beyond the ability of a company to control – particularly those associated with exploring for, and developing, economic quantities of hydrocarbons; volatile commodity prices; issues related to global supply and demand; governmental regulations; and environmental matters. The Company's business is affected by these risks to the same degree as any other participant in the international oil and gas industry. Stratic participates in selected international exploration ventures of high potential that nonetheless add certain political and technical business risks. Such risks are mitigated by operating in politically and economically stable countries, and by aligning with joint venture companies that have significant international experience.

AUDITORS' REPORT

To the Shareholders
Stratic Energy Corporation

We have audited the consolidated balance sheets of Stratic Energy Corporation as at December 31, 2003 and 2002 and the consolidated statements of loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Collins Barrow Calgary LLP

CHARTERED ACCOUNTANTS
Calgary, Alberta
April 1, 2004
(except for note 12(c) which is as of April 6, 2004)

CONSOLIDATED BALANCE SHEETS

December 31, 2003 and 2002 (U.S. Dollars)

	2003	2002
Assets		
Current assets		
Cash and cash equivalents	$ 2,042,415	$ 887,112
Restricted cash and cash equivalents (note 8(c)(i))	–	1,474,130
Accounts receivable and prepaids	22,098	130,350
	2,064,513	2,491,592
Investment (note 3)	120,000	120,000
Petroleum and natural gas properties (note 4)	2,580,975	2,491,880
Other assets	5,154	–
	$ 4,770,642	$ 5,103,472
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 132,662	$ 393,448
Due to related parties (note 6)	17,575	45,082
	150,237	438,530
Shareholders' Equity		
Share capital (note 8(b))	8,611,841	5,979,466
Special Warrants (note 8(c))	–	2,373,655
Contributed surplus (note 8(c)(i))	448,561	292,651
Deficit	(4,439,997)	(3,980,830)
	4,620,405	4,664,942
	$ 4,770,642	$ 5,103,472

See accompanying Notes to the Considated Financial Statements

Approved by the Board,

Director

Director

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

For the years ended
December 31, 2003 and 2002 (U.S. Dollars)

	2003	2002
Revenue		
Interest income	$ 51,216	$ 6,967
Expense		
General and administrative	633,622	260,263
Stock-based compensation	256,037	-
Interest	–	6,915
Depreciation	2,038	-
	891,697	267,178
Loss from operations	(840,481)	(260,211)
Other Income (loss)		
Foreign exchange gain (loss)	377,194	(40,074)
Gain on recovery from petroleum and natural gas properties (note 4)	28,323	–
Write-down of petroleum and natural gas properties (note 4)	(24,203)	(753,773)
	381,314	(793,847)
Net loss	(459,167)	(1,054,058)
Deficit, beginning of year	(3,980,830)	(2,926,772)
Deficit, end of year	$ (4,439,997)	$ (3,980,830)
Net loss per share (note 8(f))		
Basic	$ (0.01)	$ (0.04)
Diluted	$ (0.01)	$ (0.04)

See accompanying Notes to the Considated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2003 and 2002 (U.S. Dollars)

	2003	2002
Operating activities		
Net loss	$ (459,167)	$ (1,054,058)
Items not affecting cash		
Stock-based compensation	256,037	–
Gain on recovery of petroleum and natural gas properties (note 4)	(28,323)	–
Depreciation	2,038	–
Write-down of petroleum and natural gas properties (note 4)	24,203	753,773
Funds used in operations	(205,212)	(300,285)
Change in non-cash working capital	44,210	38,812
Cash used in operating activities	(161,002)	(261,473)
Financing activities		
Advances from (repayments to) related parties, net	(27,507)	44,230
Issuance of share capital	171,150	–
Issuance of Special Warrants, net of issue costs	(12,557)	2,666,306
Decrease (increase) in restricted cash and cash equivalents	1,474,130	(1,474,130)
Change in non-cash working capital	(111,976)	78,565
Cash from financing activities	1,493,240	1,314,971
Investing activities		
Acquisition of petroleum and natural gas properties	(288,751)	(394,818)
Acquisition of other assets	(7,192)	–
Recovery from petroleum and natural gas properties (note 4)	203,776	–
Change in non-cash working capital	(84,768)	(378,946)
Cash from (used in) investing activities	(176,935)	(773,764)
Increase in cash and cash equivalents	1,155,303	279,734
Cash and cash equivalents, beginning of year	887,112	607,378
Cash and cash equivalents, end of year	$ 2,042,415	$ 887,112
Cash and cash equivalents consists of		
Balance with banks	$ 40,621	$ 887,112
Short-term deposits	2,001,794	–
	$ 2,042,415	$ 887,112
The following non-cash transaction has been excluded from the statements of cash flows: The acquisition of petroleum and natural gas properties by the issuance of share capital (note 8(b))	$ –	$ 1,000,000

See accompanying Notes to the Considated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Company activities

The Company's activities are the exploration for and development of petroleum and natural gas properties internationally, with a primary focus in Africa and the United Kingdom.

The Company is in the process of exploring its petroleum and natural gas properties and has not yet determined whether they contain reserves that are economically recoverable. The success of the Company's exploration and development of its petroleum and natural gas properties is influenced by significant financial risks, legal and political risks, commodity prices, and the ability of the Company to discover economically recoverable reserves and to bring such reserves into future profitable production. In addition, the Company must continue to obtain sufficient financing to develop its properties towards planned principal operations.

2. Summary of significant accounting policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries.

(b) Currency

The United States dollar is the principal currency of the Company's business and accordingly, these consolidated financial statements are presented in United States dollars.

(c) Cash and cash equivalents

Cash and cash equivalents consist of balances with banks and short-term investments with initial maturities not exceeding 90 days.

(d) Investment

The Company records its investment using the cost method of accounting whereby the investment is initially recorded at cost. Earnings are recognized only to the extent received or receivable. Where there has been a permanent decline in value, the investment is stated at estimated net realizable value.

(e) Petroleum and natural gas exploration and development expenditures

The Company follows the Canadian full cost method of accounting for petroleum and natural gas properties whereby all costs related to the exploration for and the development of petroleum and natural gas reserves are initially capitalized and accumulated in cost centres by country. Costs capitalized include land acquisition costs, geological and geophysical expenditures, costs of drilling productive and non-productive wells, together with overhead and interest directly related to exploration and development activities and lease and well equipment. The recoverability of the amounts recorded for petroleum and natural gas properties are dependent on the existence of economically recoverable reserves and future production from the properties.

When the properties are brought into commercial production, the costs capitalized will be depleted and depreciated using the unit-of-production method by cost centre based upon gross proven petroleum and natural gas reserves as determined by independent engineers. To December 31, 2003, no provision for depletion of petroleum and natural properties has been provided for as no reserves or associated commercial production exists.

Unproven petroleum and natural gas properties are written down when properties are abandoned or when cost exceeds net realizable value. Costs related to the initial assessment of the unproven properties which, in the opinion of management, are not viable development projects are charged to earnings in the period incurred.

All administrative costs of the Company are expensed as incurred.

(f) Depreciation

Other assets are depreciated using the straight line method over a three year term.

(g) Asset retirement obligations

Effective January 1, 2003, the Company has adopted retroactively the Canadian Institute of Chartered Accountants' new standard on Asset Retirement Obligations. This new section requires liability recognition for retirement obligations associated with long-lived assets, which would include abandonment of oil and natural gas wells, related facilities, compressors and gas plants, removal of equipment from leased acreage and returning such land to its original condition.

Under the new standard, the estimated fair value of each asset retirement obligation is recorded in the period a well or related asset is drilled, constructed or acquired. Fair value is estimated using the present value of the estimated future cash outflows to abandon the asset at the Company's credit-adjusted risk-free interest rate. The obligation is reviewed regularly by Company management based upon current regulations, costs, technologies and industry standards. The discounted obligation is initially capitalized as part of the carrying

amount of the related oil and natural gas properties and a corresponding liability is recognized. The increase in oil and natural gas properties is depleted and depreciated on the same basis as the remainder of the oil and natural gas properties, while the liability is accreted against income until it is settled or the property is sold and is included as a component of depletion and depreciation expense. Actual restoration expenditures are charged to the accumulated obligation as incurred. To December 31, 2003, no obligation has been provided for as the Company has not commenced drilling on its current properties and therefore no liability exists and no restatement of prior periods was required.

Prior to 2003, the Company estimated costs of dismantlement, removal and site restoration and recorded them over the remaining life of the proved reserves on the unit-of-production basis. The annual provision was included in depletion and depreciation expense and was accrued as a site restoration liability on the balance sheet. Actual restoration expenditures were charged to the accumulated obligation as incurred. To December 31, 2002, no provision has been provided for as no reserves or associated commercial production exists.

(h) Measurement uncertainty

The valuation of the petroleum and natural gas properties is based on management's best estimate of the future recoverability of these assets.

The amounts recorded and disclosed relating to the fair value of Stock and Compensation Options issued, as described in note 8, are based on estimates of the future volatility of the Company's share price, expected lives of the options, expected dividends and other relative assumptions.

By their nature, these estimates are subject to measurement uncertainty and the effect of changes in such estimates in future periods could be significant.

(i) Joint venture accounting

Substantially all of the Company's exploration activities are conducted jointly with others, and accordingly, these financial statements reflect only the Company's proportionate interest in such activities.

(j) Income taxes

Income taxes are accounted for using the liability method of income tax allocation. Under the liability method, income tax assets and liabilities are recorded to recognize future income tax inflows and outflows arising from the settlement or recovery of assets and liabilities at the carrying values. Income tax assets are also recognized for the benefits from tax losses and deductions that cannot be identified with particular assets or liabilities, provided those benefits are more likely than not to be realized. Future income tax assets and liabilities are determined based on the tax laws and rates that are anticipated to apply in the period of realization.

(k) Stock-based compensation

The Company has a stock option plan as described in note 8(f).

On October 1, 2003, the Company prospectively adopted the Canadian Institute of Chartered Accountants' new standard with respect to accounting for stock-based compensation arrangements relating to stock options granted to employees, officers and directors. Under the transitional provisions of the standard, stock options granted to employees, officers and directors after the effective date of January 1, 2003 are accounted for using the fair value method, under which compensation expense is recorded based on the estimated fair value of the options at the date of grant. As a result of this change, stock based compensation expense increased by $256,037 and contributed surplus increased by $256,037, both of which have been recorded in 2003.

Effective January 1, 2002, the Company prospectively adopted the Canadian Institute of Chartered Accountants' accounting standard with respect to accounting for stock-based compensation arrangements. Stock options granted to non-employees are accounted for using the fair value method. The Company elected to use the intrinsic value-based method of accounting for its stock option plans, whereby no compensation expense is recorded for stock options issued to directors, officers and employees during 2002 that have an exercise price equal to or greater than the fair value of the stock at the date options are granted. However, the pro-forma results of using the fair value method will be presented only for the effects of options granted subsequent to January 1, 2002. As no options were granted during the year ended December 31, 2002 to directors, officers or employees, no pro forma information is presented in these financial statements.

Any consideration received by the Company on the exercise of stock options will be credited to share capital. The fair value of those options, which were included in contributed surplus, will be reclassified to share capital.

(l) Net loss per share

Diluted net loss per share is calculated using the treasury stock method, whereby it is assumed that proceeds from the exercise of "in the money" stock options and warrants are used by the Company to repurchase Company shares at the weighted average market price during the year.

(m) Revenue recognition

Revenue from the sale of petroleum and natural gas is recognized based on volumes delivered to customers at contractual delivery points and rates. The costs associated with the delivery, including operating and maintenance costs, transportation, and production based royalty expenses are recognized in the same period in which the related revenue is earned and recorded.

(n) Foreign currency translation

The Company follows the temporal method when translating foreign currency transactions and the financial statements of its integrated subsidiaries.

Under this method, foreign currency denominated assets and liabilities are translated at the exchange rate prevailing at the balance sheet date for monetary items and at the transaction date for non-monetary items. Revenues and expenses, except depletion and depreciation, are translated at average exchange rates for the period. Depletion and depreciation are translated at the same rate as the related assets. Exchange gains or losses arising from the translation of current and non-current monetary items are included in the determination of net loss.

Effective January 1, 2002, the Company changed its policy for accounting for foreign currency transactions whereby exchange gains or losses on long-term monetary items are no longer deferred and amortized over the remaining terms of the related items. All gains or losses on long-term monetary items are now recognized in income in the period that they occur. There was no effect to the consolidated financial statements for the year ended December 31, 2002 as a result of this change.

3. Investment

Investment consists of 375,000 common shares of CEP International Petroleum Ltd. ("CEP") at cost.

The fair value is not practicable to determine as there is no active market for the common shares. Management considers the acquisition cost to be the estimated net realizable value, and therefore no writedown is considered necessary.

The Company has the right to participate in any exploration and production sharing agreement with CEP to a maximum of a 10% working interest.

4. Petroleum and natural gas properties

	2003	2002
Petroleum and natural gas properties		
including exploration and development thereon		
Côte d'Ivoire	**$ 1,234,901**	$ 1,339,870
Syria	**661,917**	641,563
Algeria	**506,959**	491,469
United Kingdom	**127,278**	–
Kenya	**26,782**	–
Morocco	**23,138**	–
Guinea	**–**	18,978
	$ 2,580,975	$ 2,491,880

The Company has not capitalized any general and administrative expenses to December 31, 2003.

The Company has not recorded depletion and depreciation on petroleum and natural gas properties as there has been no production to December 31, 2003.

During the year ended December 31, 2003, the Company decided not to pursue further petroleum exploration opportunities in Guinea, and as a result, wrote down the associated petroleum and natural gas properties by $24,203.

During the year ended December 31, 2002, the Company decided not to pursue further petroleum exploration opportunities in Gabon, and as a result, wrote down the associated petroleum and natural gas properties by $753,773. During the year ended December 31, 2003, the Company recovered $28,323 of the costs it had previously written off and has included this amount as a gain on recovery from petroleum and natural gas properties.

Also included in the recovery of petroleum and natural gas properties was $175,453 recouped from prior expenditures in Côte d'Ivoire.

5. Credit facility

During the year ended December 31, 2002 the Company had a credit facility with a subsidiary of Gentry Resources Ltd. ("Gentry"), a corporation that owned approximately 19.36% of the Company's common shares and Special Warrants and is related by common directors and officers. The subsidiary provided an unsecured credit facility to the Company in an amount not exceeding $293,000 for the period February 20, 2002 to December 31, 2002 which bore interest at the U.S. base rate of a Canadian chartered bank plus 2% per annum and accrued and compounded on a monthly basis. The credit facility was terminated on December 4, 2002 and all principal amounts owing were repaid.

6. Due to related parties

Due to related parties consists of amounts owing to corporations with common directors and officers, are unsecured and non-interest bearing with no specified terms of repayment.

7. Income taxes

(a) Significant components of the Company's future income tax asset include the following:

	2003	2002
Temporary differences related to petroleum and natural gas properties	**$ 855,453**	$843,365
Share issuance costs	**194,035**	182,281
Non-capital loss carryforwards	**652,763**	491,086
Valuation allowance	**(1,702,251)**	(1,516,732)
	$ –	$ –

The future income tax asset has not been recognized as production has not yet commenced, and management does not believe it is more likely than not that they will realize the asset.

(b) Income tax expense (recovery) differs from that which would be expected from applying the combined effective Canadian federal and provincial corporate income tax rates of 40.62% (2002 – 42.12%) to loss before income taxes as follows:

	2003	2002
Computed expected income taxes recovery	**$ (186,514)**	$ (443,969)
Future income tax benefit not recognized	**179,829**	415,882
Non-deductible stock-based compensation	**104,406**	–
Effect of foreign currency translation	**(513,431)**	–
Effect of non-capital losses expired	**75,110**	–
Change in value of tax reserves and losses due to change in tax rates	**336,826**	9,681
Other	**3,774**	18,406
	$ –	$ –

(c) The Company has the following non-capital loss carryforwards for which no benefit has been recognized in the consolidated financial statements:

Year of Expiry	Federal	Provincial
	(Cdn. $)	(Cdn. $)
2004	$ 870	$ –
2005	151,847	–
2006	349,751	349,751
2007	259,815	259,815
2008	323,437	323,437
2009	624,561	624,561
2010	784,174	784,174
	$ 2,494,455	$ 2,341,738

8. Share capital

(a) Authorized

Unlimited number of voting common shares
Unlimited number of non-voting common shares
Unlimited number of preferred shares

(b) Issued

Voting common shares	Number	Stated Value
Balance, December 31, 2001	18,467,622	$ 3,531,678
Pursuant to an Acquisition Agreement (i)	7,272,727	1,000,000
Exercise of Special Warrants (note 8(c)(ii))	5,099,995	1,447,788
Balance, December 31, 2002	30,840,344	5,979,466
Exercise of Special Warrants (note 8(c)(i))	21,168,500	2,361,098
Exercise of Compensation Options (note 8(c)(i))	1,012,817	271,277
Balance, December 31, 2003	53,021,661	$ 8,611,841

(i) Pursuant to an Acquisition Agreement dated November 27, 2002, the Company acquired certain rights to negotiate in respect of oil and gas interests in Algeria and Syria for consideration of $1,000,000, payable through the issuance of 7,272,727 voting common shares. Upon the acquisition of an asset in Algeria, the Company will issue a further 8,545,455 voting common shares having a deemed value of $1,175,000. Upon the acquisition of up to three assets in Syria, the Company will issue up to a further 19,454,545 voting common shares having a deemed value of $2,675,000. Various consents and approvals are required to complete each asset acquisition. The voting common shares will not be issued until the production sharing contracts are signed and all necessary approvals have been obtained. Assuming all the assets are acquired, the vendor of the assets will own approximately 43.5% of the voting common shares of the Company (35.9% on a fully diluted basis).

The Company's rights under the Acquisition Agreement expire November 27, 2004.

(c) Special Warrants

	Number	Stated Value
Balance, December 31, 2001	4,636,364	$ 1,447,788
Exercised into voting common shares (ii)	(4,636,364)	(1,447,788)
Issued for cash (i)	21,168,500	2,990,286
Costs of issuance	–	(616,631)
Balance, December 31, 2002	21,168,500	2,373,655
Exercised into voting common shares (i)	(21,168,500)	(2,361,098)
Costs of issuance	–	(12,557)
Balance, December 31, 2003	$ –	$ –

(i) In December 2002, the Company issued 21,168,500 Special Warrants at Cdn. $0.22 per Special Warrant for total proceeds of Cdn. $4,657,070 pursuant to an Agency Agreement dated December 4, 2002. Each Special Warrant was exchanged, for no additional consideration, into one voting common share and one-half share purchase warrant on May 9, 2003. Each whole share purchase warrant entitles the holder to acquire one voting common share at a price of Cdn. $0.40 until June 4, 2004. Half of the funds raised pursuant to the financing were held in escrow until the earlier of the time the Company received a receipt for a Final Prospectus and December 4, 2003. The funds restricted totaled $1,474,130 and were released from escrow on May 2, 2003 when the Company received its receipt for the Final Prospectus.

The agents were paid a placement fee of Cdn. $364,566 and were granted warrants entitling the agents to acquire, at no additional consideration, 2,116,850 Special Options (the "Compensation Options"). Each Compensation Option entitles the agents to acquire one voting common share and one-half of a share purchase warrant at Cdn. $0.22 per Compensation Option until June 4, 2004. Each share purchase warrant is

exercisable into one voting common share at a price of Cdn. $0.40 per share until June 4, 2004. To December 31, 2003, 1,012,817 Compensation Options have been exercised into 1,012,817 voting common shares and 506,408 Compensation Warrants.

The fair value of the agent's option was estimated to be $292,651 using the Black-Scholes model with the following assumptions: expected option life of 1.5 years, expected volatility of 132%, risk-free rate of 3.25%, and a zero dividend yield. This amount has been recorded as a share issuance cost with a corresponding increase in contributed surplus.

(ii) On September 17, 2001, the Company issued 4,636,364 Special Warrants at Cdn. $0.55 per Special Warrant pursuant to an Agency Agreement dated September 13, 2001. Each Special Warrant entitled the holder to acquire 1.1 voting common shares and 0.55 of one share purchase warrant at no additional cost. Each whole share purchase warrant entitled the holder to acquire one voting common share at Cdn. $0.75 per share until March 13, 2003. The Special Warrants were exercisable at any time and expired at the earliest of (a) five business days following the date on which the Securities Commissions shall have issued a receipt for a Final Prospectus, and (b) September 13, 2002. All Special Warrants were deemed to have been exercised on June 3, 2002 into 5,099,995 voting common shares and 2,549,995 share purchase warrants. The share purchase warrants expired unexercised.

The agent was paid a placement fee of Cdn. $104,000 and was granted warrants entitling the agent to acquire, at no additional consideration, 189,090 Special Options (the "Compensation Options"). Each Compensation Option entitled the agent to acquire one voting common share and one-half of a share purchase warrant at Cdn. $0.60 per Compensation Option until September 13, 2003. Each whole share purchase warrant was exercisable into one voting common share at a price of Cdn. $0.75 per share until March 13, 2003. The Compensation Options expired unexercised.

(d) Share purchase warrants

Balance, December 31, 2001	1,465,000
Expired	(1,465,000)
Special Warrants exercised (note 8(c)(ii))	2,549,995
Balance, December 31, 2002	2,549,995
Expired (note 8(c)(ii))	(2,549,995)
Special Warrants exercised (note 8(c)(i))	10,584,250
Compensation Options exercised (note 8(c)(i))	506,408
Balance, December 31, 2003	11,090,658

Subsequent to December 31, 2003, 195,000 share purchase warrants were exercised at Cdn. $0.40 per share for gross proceeds of Cdn. $78,000.

(e) Compensation Options

Balance, December 31, 2001	539,090
Expired	(350,000)
Issued (note 8(c)(i))	2,116,850
Balance, December 31, 2002	2,305,940
Expired	(189,090)
Exercised (note 8(c)(i))	(1,012,817)
Balance, December 31, 2003	1,104,033

(f) Stock option plan

The Company has a stock option plan for directors, officers, employees and consultants of the Company (the "Plan"). The maximum number of shares which may be reserved for issuance under the Plan is 5,500,000 voting common shares. The maximum number of shares which may be reserved for issuance to any one person under the Plan is 5% of the issued voting common shares. The price at which options may be issued under the Plan cannot be less than the market price of the voting common shares at the time the option is granted. Options granted under the Plan generally have a term not exceeding five years and vest over 18 months.

A summary of the status of the Company's stock option plan as of December 31, 2003 and 2002 and changes during the years then ended are as follows:

	2003		2002	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	**1,507,500**	**Cdn. $0.30**	1,507,500	Cdn. $0.30
Granted	**3,325,000**	**Cdn. $0.33**	–	
Cancelled	**(250,000)**	**Cdn. $0.29**	–	
Outstanding, end of year	**4,582,500**	**Cdn. $0.32**	1,507,500	Cdn. $0.30
Exercisable, end of year	**2,713,750**	**Cdn. $0.31**	1,507,500	Cdn. $0.30

The following table summarizes information about stock options outstanding at December 31, 2003:

Exercise Prices	Number	Weighted Average Remaining Contractual Life	Expiry Date
Cdn. $0.25	937,500	0.3	March 31, 2004
Cdn. $0.30	2,500,000	4.4	May 23, 2008
Cdn. $0.42	825,000	5.0	December 15, 2008
Cdn. $0.45	320,000	2.3	April 4, 2006
	4,582,500	3.5	

Subsequent to December 31, 2003, 837,500 options were exercised at Cdn. $0.25 per share for gross proceeds of Cdn. $209,375.

(g) Stock-based compensation expense

The fair value of stock options granted during 2003 was estimated on the dates of grant using the Black-Scholes option-pricing method with the following weighted average assumptions:

Risk free interest rate of 3.76%
Expected life of options of 5 years
Expected volatility of 126.85%
Expected dividend rate of 0%
Fair value per option granted of $0.18

Compensation costs of $256,037 have been expensed and $256,037 recognized as contributed surplus during 2003.

(h) Net loss per share

Net loss per share has been calculated using the basic weighted average number of voting common shares and Special Warrants outstanding during the year of 52,132,915 (2002 – 25,830,891). The exercise of share purchase warrants and stock options would not be dilutive for the years ended December 31, 2003 and 2002 as the Company is in a loss position and, therefore, the diluted weighted average number of voting common shares equals the basic weighted average number of voting common shares.

9. Financial instruments

(a) Fair values

The fair values of accounts receivable, accounts payable and accrued liabilities and due to related parties approximate their carrying values due to the short-term maturity of these financial instruments.

(b) Foreign currency risk

Portions of the Company's assets are located in Canada, parts of Africa, and the United Kingdom, and accordingly portions of the Company's current assets and liabilities, revenues, expenses, and capital expenditures are denominated in Canadian and U.S. dollars and pounds sterling. As such, the Company is subject to the risk of fluctuating exchange rates amongst the Canadian dollar, the U.S. dollar, and pounds sterling.

10. Related party transactions

General and administrative expenses include $64,217 (2002 – $38,208) for management services to a corporation with common directors and officers and $64,217 (2002 – $9,552) for rent to a corporation with a common director.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

11. Commitments

(a) The Company, through its wholly-owned subsidiary, Stratic Energy (West Africa) Inc., along with various industry joint venture participants, has signed two Petroleum Production Sharing Contracts with the Government of Côte d'Ivoire in West Africa.

The first Production Sharing Contract (Block C1-102) provides for three successive exploration periods during which the participants have minimum work requirements as follows:

(i) during the first exploration period (the 45 month period commencing March 13, 1997 and ending December 12, 2000), the participants were required to conduct geological and geophysical studies and reprocess 2,000 kilometres of 2D seismic data, acquire a minimum of 500 kilometres of 2D seismic data and acquire a minimum of 100 square kilometres of 2D seismic at the request of the participants;

(ii) during the second exploration period (the 44 month period commencing December 13, 2000 and ending August 12, 2004), the participants were required to conduct geological and geophysical studies, purchase and interpret 600 square kilometres of 3D seismic data and drill one exploratory well at the option of the participants; and

(iii) during the third exploration period (the 24 month period commencing upon the expiration of the second exploration period), the participants must drill two exploration wells, the first of which must be drilled within the first 12 months from the beginning of the period, to a depth of 2,500 metres or 100 metres into the Albian formation, whichever is the shallower.

The second Production Sharing Contract (Block C1-103) provides for three successive exploration periods during which the participants have minimum work requirements as follows:

(iv) during the first exploration period (the 36 month period commencing December 22, 1997 and ending December 21, 2000), the participants were required to reprocess and interpret at least 400 km of existing 2D seismic and acquire, process and interpret 600 km of new 2D seismic data;

(v) during the second exploration period (the 44 month period commencing December 22, 2000 and ending August 21, 2004), the participants were required to purchase and interpret 250 square kilometres of 3D seismic data and drill one exploratory well at the option of the participants; and

(vi) during the third exploration period (the 36 month period commencing upon the expiration of the second exploration period), the participants must drill two exploration wells, the first of which must be drilled within the first 12 months from the beginning of the period.

For each of the contracts, the Company has met its minimum work requirements for both the first and second exploration periods. The Company is not committed to the minimum work requirements of the third exploration period until it formally indicates its intention to proceed to the Government of Côte d'Ivoire. The Company intends to find an additional joint venture partner prior to entering into the third exploration period to assist with the further development of the contracts. If the Company does not commit to the third exploration period, the Company loses its working interest in that contract.

(b) The Company, through it's wholly-owned subsidiary, Stratic Energy (UK) Limited, has acquired a 100% interest in two Seaward Production Licenses in the North Sea.

The first License (Blocks 16/11 and 16/16) provides for a payment of £6,495 and minimum work commitments as follows:

during the initial term (the two year period commencing October 1, 2003 and ending September 30, 2005), the Company must acquire 220 kilometres of 2D seismic data and 150 square kilometres of 3D seismic data, and shall reprocess 40 kilometres of 2D seismic data, relating to the licensed area.

The License shall expire after the initial term unless the Company makes a firm commitment to drill a well pursuant to the terms of the License and certain approvals.

The second License (Block 211/16b) provides for a payment of £1,859 and minimum work commitments as follows:

during the initial term (the two year period commencing October 1, 2003 and ending September 30, 2005), the Company must acquire 125 square kilometres of 3D seismic data relating to the licensed area.

The License shall expire after the initial term unless the Company makes a firm commitment to drill a well pursuant to the terms of the License and certain approvals.

12. Subsequent events

(a) On January 20, 2004, the Company, through its wholly-owned subsidiary, Stratic Energy (UK) Limited, received, subject to various joint venture participant's approval, the U.K Department of Trade and Industry's consent to the transfer of a 5.58376% interest in UKCS Block 9/28a (Area B) to Stratic Energy (UK) Limited.

Consideration for the interest was the sum of $275,000 paid to a corporation with a common director of the Company in recognition of business development costs incurred by that corporation.

(b) On February 25, 2004, the Company, through its wholly-owned subsidiary, Stratic Energy (Morocco) Inc., along with various industry joint venture participants, signed a Petroleum Agreement and an Association Contract with the government of Morocco in North Africa. As a result, the Company has acquired exploration rights, as to a 36% interest, in two concessions onshore Morocco encompassing approximately 4,000 square kilometers. Consideration for the interest was the sum of $56,555 plus a finders fee of $20,000 and 56,271 common shares with a deemed value of $17,500.

The Petroleum Agreement provides for an initial exploration period during which the participants have minimum work requirements as follows:

during the Initial Period (the three year period commencing February 25, 2004 and ending February 24, 2007), the participants must prestack time migration of 650km of seismic data; conduct an airbourne gravity and magnetic survey; acquire Landsat data; conduct related interpretive geological and geophysical work; drill one exploration well to a depth of 1500 metres or four exploration wells at a shallower depth; and acquire, process and interpret 250 kilometres of 2D seismic data.

The Company has posted a $900,000 letter of credit to fund its portion of the anticipated $2.5 million Initial Period exploration program. These funds are recoverable at various stages throughout the completion of the program.

The Petroleum Agreement shall expire at the end of the Initial Period unless the Company elects to enter into the First Extension Period, which contains various seismic and/or drilling commitments estimated at $2.5 million.

(c) On April 6, 2004, the Company signed a term sheet with investment agents to sell, on a best efforts basis, up to 15,000,000 units at a price of $0.40 per unit. Each unit shall consist of one common share and one-half of a share purchase warrant, with each full share purchase warrant entitling the holder to acquire one common share at a price of $0.50 per share for a period of 24 months from the date of issue. A commission of 6% of the gross proceeds and 10% in units is payable to the agents.

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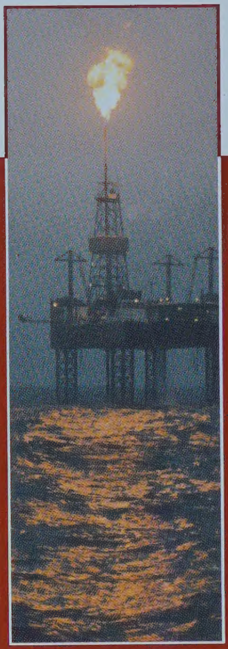

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